

FONTANA UNIFIED SCHOOL DISTRICT

Revised Audit Report

SCHOOL ACCOUNTABILITY REPORT CARDS PROGRAM

Chapters 918 and 912, Statutes of 1997; Chapter 824,
Statutes of 1994; Chapter 1031, Statutes of 1993; Chapter 759,
Statutes of 1992; and Chapter 1463, Statutes of 1989

July 1, 2001, through June 30, 2002



JOHN CHIANG
California State Controller

January 2007



JOHN CHIANG
California State Controller

January 25, 2007

Jane D. Smith, Superintendent
Fontana Unified School District
9680 Citrus Avenue
Fontana, CA 92335

Dear Ms. Smith:

The State Controller's Office (SCO) audited the claim filed by the Fontana Unified School District for costs of the legislatively mandated School Accountability Report Cards Program (Chapters 918 and 912, Statutes of 1997; Chapter 824, Statutes of 1994; Chapter 1031, Statutes of 1993; Chapter 759, Statutes of 1992; and Chapter 1463, Statutes of 1989) for the period of July 1, 2001, through June 30, 2002.

This revised report supersedes our previous report, issued on July 29, 2005. This second revised report revises Finding 1. As a result, allowable costs increased by \$8,558. In addition, we eliminated Finding 2, totaling \$1,801, because the remaining audit adjustment was not material.

The district claimed \$51,909 for the mandated program. Our audit disclosed that the entire amount is allowable. The district was paid \$41,550. The State will pay allowable costs claimed that exceed the amount paid, totaling \$10,359, contingent upon available appropriations.

If you have any questions, please contact Jim L. Spano, Chief, Compliance Audits Bureau, at (916) 323-5849.

Sincerely,

Original signed by:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

JVB/wm:vb

cc: Herbert R. Fischer, Ph.D.

County Superintendent of Schools
San Bernardino County Office of Education

Susan Killian

Interim Director of Fiscal Services
Fontana Unified School District

Scott Hannan, Director

School Fiscal Services Division
California Department of Education

Caryn Moore, Administrator

Fiscal Accountability and Information Services
School Fiscal Services Division
California Department of Education

Arlene Matsuura, Educational Consultant

School Fiscal Services Division
California Department of Education

Gerry Shelton, Director

Fiscal and Administrative Services Division
California Department of Education

Jeannie Oropeza, Program Budget Manager

Education Systems Unit
Department of Finance

Contents

Revised Audit Report

Summary	1
Background	1
Objective, Scope, and Methodology	1
Conclusion	2
Views of Responsible Official	2
Restricted Use	3
Revised Schedule 1—Summary of Program Costs	4
Revised Findings and Recommendations.....	5
Attachment—District’s Response to Draft Audit Report	

Revised Audit Report

Summary

The State Controller's Office (SCO) has completed an audit of the claim filed by the Fontana Unified School District for costs of the legislatively mandated School Accountability Report Cards Program (Chapters 918 and 912, Statutes of 1997; Chapter 824, Statutes of 1994; Chapter 1031, Statutes of 1993; Chapter 759, Statutes of 1992; and Chapter 1463, Statutes of 1989) for the period of July 1, 2001, through June 30, 2002. The last day of fieldwork was December 19, 2003.

The district claimed \$51,909 for the mandated program. The audit disclosed that the entire amount is allowable. The district was paid \$41,550. The State will pay allowable costs claimed that exceed the amount paid, totaling \$10,359, contingent upon available appropriations.

Background

Proposition 98, an initiative approved by California voters, requires schools in each school district to develop and issue school accountability report cards. The proposition also sets forth 13 items to be included in the report cards. Statutes adopted after the approval of Proposition 98 added new subjects to be included in the school accountability report cards.

On April 23, 1998, the Commission on State Mandates ruled the above legislation imposed a state mandate upon school districts and county offices of education reimbursable under *Government Code* Section 17514.

Parameters and Guidelines, adopted by the Commission on State Mandates on August 20, 1998, establishes the state mandate and defines criteria for reimbursement. In compliance with *Government Code* Section 17558, the SCO issues claiming instructions for each mandate requiring state reimbursement in assisting local agencies and school districts in claiming reimbursable costs.

Objective, Scope, and Methodology

The audit objective was to determine whether costs claimed are increased costs incurred as a result of the legislatively mandated School Accountability Report Cards (SARC) Program (Chapters 918 and 912, Statutes of 1997; Chapter 824, Statutes of 1994; Chapter 1031, Statutes of 1993; Chapter 759, Statutes of 1992; and Chapter 1463, Statutes of 1989) for the period of July 1, 2001, through June 30, 2002.

We performed the following procedures.

- Reviewed the costs claimed to determine if they were increased costs resulting from the mandated program;
- Traced the costs claimed to the supporting documentation to determine whether the costs were properly supported;

- Confirmed that the costs claimed were not funded by another source; and
- Reviewed the costs claimed to determine that the costs were not unreasonable and/or excessive.

We conducted the audit in accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, and under the authority provided by *Government Code* Sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We limited our audit scope to planning and performing audit procedures necessary to obtain reasonable assurance concerning the allowability of expenditures claimed for reimbursement. Accordingly, we examined transactions, on a test basis, to determine whether the amounts claimed for reimbursement were supported.

Our review of the district's internal controls was limited to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

Conclusion

Our audit disclosed an instance of noncompliance with the requirements outlined above. This instance is described in the accompanying Summary of Program Costs (Second Revised Schedule 1) and in the Second Revised Finding and Recommendation section of this report.

For the audit period, the Fontana Unified School District claimed \$51,909 for costs of the legislatively mandated School Accountability Report Cards Program. The audit disclosed that the entire amount is allowable. The district was paid \$41,550 by the State. The State will pay allowable costs claimed that exceed the amount paid, totaling \$10,359, contingent upon available appropriations.

Views of Responsible Official

We issued a draft audit report on April 14, 2004. Melissa Anderson, Director of Fiscal Services, responded by the attached letter dated May 20, 2004, disagreeing with Finding 1 and agreeing with Finding 2. We issued the final report, which included the district's response, on June 25, 2004.

In response to additional information provided by the district after the final report was issued, we issued a revised final report on July 29, 2005. In the revised final report, we revised Finding 1 to state that the district did not report \$8,558, rather than \$36,749, in offsetting reimbursements for the program.

This revised final audit report revises Finding 1 of our revised final audit report issued July 29, 2005, from \$8,558 to \$0. In addition, we eliminated Finding 2, totaling \$1,801, because the remaining audit adjustment was not material. We advised Susan Killian, Interim Director of Fiscal Services, of the revised report on January 9, 2007.

Restricted Use

This report is solely for the information and use of the Fontana Unified School District, the San Bernardino County Office of Education, the California Department of Education, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

Original signed by:

JEFFREY V. BROWNFIELD
Chief, Division of Audits

**Revised Schedule 1—
Summary of Program Costs
July 1, 2001, through June 30, 2002**

<u>Cost Elements</u>	<u>Actual Costs Claimed</u>	<u>Allowable per Audit</u>
Salaries and benefits	\$ 12,735	\$ 12,735
Contract services	<u>36,749</u>	<u>36,749</u>
Subtotals	49,484	49,484
Indirect costs	<u>2,425</u>	<u>2,425</u> ¹
Total program costs	<u>\$ 51,909</u>	51,909
Less amount paid by the State		<u>(41,550)</u>
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 10,359</u>

¹ See the Finding and Recommendation section.

Revised Finding and Recommendation

FINDING— Indirect cost pool overstated

The district's indirect cost pool included direct mandate-related costs claimed for fiscal year (FY) 2001-02. Therefore, the indirect cost pool and the resulting indirect cost rate was overstated. As a result, the district recovered duplicate costs when it applied its indirect cost rate to federal- and state-funded programs.

The district's FY 2001-02 indirect cost pool included mandate-related direct contract services costs totaling \$36,749. We allowed the direct costs claimed because the costs are mandate-related and properly supported. Although the indirect cost rates claimed were overstated, we concluded that the mandate-related indirect costs claimed were not materially affected. Therefore, we allowed the related indirect costs claimed. However, we did not calculate the duplicate costs that the district recovered by applying the overstated indirect cost rate to other federal- and state-funded programs.

Office of Management and Budget (OMB) Circular A-87, Attachment A, states that direct costs are those that can be identified specifically with a particular final cost objective. Indirect costs are costs incurred for a common or joint purpose benefiting more than one cost objective, but are not readily assignable to the cost objectives benefited without effort disproportionate to the results achieved.

Recommendation

We recommend that the district notify the California Department of Education (CDE) that the district overstated its indirect cost rate by including mandate-related direct costs in its indirect cost pools. We recommend that the district work with the CDE to adjust subsequent years' indirect cost rates to account for the rates that were overstated during the audit period.

We also recommend that the district work with CDE to identify the appropriate codes from CDE's standardized account code structure that the district should use when costs are charged directly to federal- and state-funded programs.

**Attachment—
District's Response to
Draft Audit Report**



Fontana Unified School District

9680 Citrus Avenue · P.O. Box 5090 · Fontana · CA 92334-5090 (909) 357-5000

May 20, 2004

Jim L. Spano, Chief, Compliance Audits Bureau
State Controller's Office, Division of Audits
Post Office Box 942850
Sacramento, CA 94250-5874

Dear Mr. Spano,

Thank you for the opportunity to respond to the draft audit report on Fontana Unified School District's School Accountability Report Cards (SARC) mandated costs claim. I sincerely appreciate the deadline extension you granted, allowing the District to respond to your report.

We do agree with your finding #2, relative to the application of the indirect cost rate to the contracted services performed by our SARC preparation consultant. Since we were claiming the contracted services as reimbursable mandated costs, we should not have applied the indirect cost rate to those services.

We do not agree with your finding #1, however. We did correctly allocate the contracted services portion of our SARC costs to function 7200, object 5800 within the State Account Code Structure (SACS) software. The expenses in this function and object do become a part of the numerator in the indirect cost rate calculation; however, if we were to allocate those costs elsewhere, it would have become a part of the denominator of the equation. Thus, the District does not agree with finding #1, that offsetting revenues should have been stated on the claim.

Again, thank you for the opportunity to respond to the audit. It has been a pleasure working with you and your staff, and we look forward to receiving the final report.

Sincerely,

Melissa L. Anderson, Director
Fiscal Services

MLA:cb

cc: Dr. Debra Bradley, Superintendent
Mr. Jerry Kurr, Interim Associate Superintendent, Business Services

PATRICIA J. PEOPLES, Ed.D.
Associate Superintendent, Administrative Services
(909) 357-5000 ext. 7003 · Fax (909) 357-5084

LAURIE ST. GEAN
Associate Superintendent, Educational Services
(909) 357-5000 ext. 7070 · Fax (909) 357-5094

BOARD OF EDUCATION

Kathy Binks
Gus Hawthorn
Laura Abernathy Mancha
Arlene Piazza, D.Min.
D. Wayne Ruble, Ed.D.

DEBRA A. BRADLEY, Ed.D.
Superintendent of Schools
(909) 357-5000 ext. 7010 · Fax (909) 357-5012

MARILYN J. COREY
Interim Associate Superintendent, Human Resources
(909) 357-5000 ext. 7068 · Fax (909) 355-2056

JERRY J. KURR
Interim Associate Superintendent, Business Services
(909) 357-5000 ext. 7115 · Fax (909) 357-5084

**State Controller's Office
Division of Audits
Post Office Box 942850
Sacramento, California 94250-5874**

<http://www.sco.ca.gov>